

## RIDGEWORTH INSIGHTS: LEVERAGED LOAN AND HIGH YIELD



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### RIDGEWORTH FUNDS

RidgeWorth Seix Floating Rate High Income  
RidgeWorth Seix High Income  
RidgeWorth Seix High Yield

### EXECUTIVE SUMMARY

- In the wake of the Brexit vote, assurances of liquidity by central banks contributed to a “risk-on” environment that benefited the leveraged finance market. A continued recovery in commodity prices also supported performance in Metals & Mining, but in much of the broader market, technical factors dominated.
- The supply of leveraged loans was robust but consisted largely of repricings, so net new supply was limited. This, combined with strong demand, resulted in more than 58% of the market trading above par.
- Demand for high yield bonds has been strong throughout the year, and yields finished the quarter at a 15-month low.
- Defaults, which have been largely confined to the Energy and Metals & Mining sectors, declined again in the third quarter, following a sharp drop in the second quarter. Defaults may continue to drop, given improvements in commodity prices.

The leveraged loan and high yield markets posted strong returns in the third quarter, as central banks’ assurances of liquidity in the wake of the Brexit vote gave rise to a “risk-on” environment. The market was largely driven by technical factors, with demand outpacing net new supply. As a result, more than 58% of leveraged loans traded above their par value, a 16-month high, and yields on high-yield bonds finished the quarter at 6.67%, a 15-month low.



*Collective Strength. Individual Insight.*

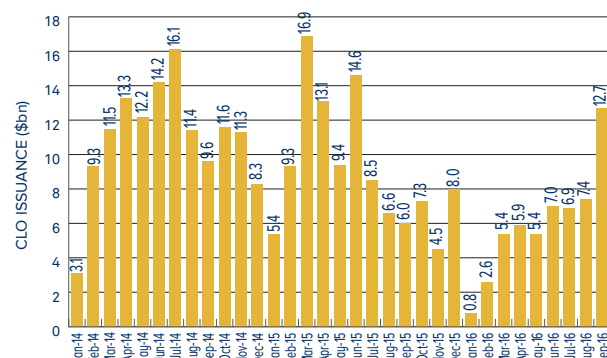
## RIDGEWORTH INSIGHTS: LEVERAGED LOAN AND HIGH YIELD

The Bloomberg Barclays U.S. Aggregate Index rose 0.46% during the quarter while the Credit Suisse Leveraged Loan Index advanced by 3.10%. The Bloomberg Barclays U.S. Corporate High Yield Index advanced 5.55%. Performance was strongest among CCC-rated loans and bonds.

### LEVERAGED LOANS

Demand for leveraged loans in September was particularly strong, and in fact, the quarter finished up with nine consecutive weeks of mutual fund inflows, the largest in 17 months, according to J.P. Morgan. Demand from collateralized loan obligations (CLOs) was also healthy, as issuance surged in September, hitting \$12.7 billion, the highest in 15 months. CLOs were active throughout the quarter, and issuance amounted to more than \$27 billion, the best since second quarter 2015.

**Exhibit 1: In September, Demand for CLOs Surged**



Source: J.P. Morgan; S&P LCD as of 9/30/16.

Supply was robust, especially in September, when institutional loan volumes totaled \$57.3 billion, the second-best month of the year. For the quarter, new institutional loans came to approximately \$131 billion, up from just \$59 billion a year earlier.

Much of the new issuance consisted of repricing and refinancing activity, however, with limited amounts going to net new supply. This, combined with strong inflows, created a favorable technical backdrop, and as a result, more than 58% of the market traded above par at the close of the quarter, according to J.P. Morgan.

Fundamentals remain fairly strong, with weakness largely confined to certain sectors. In Energy, Metals & Mining, and parts of the Technology and Healthcare sectors, financial results have been soft, but otherwise earnings have been steady, particularly among media and gaming companies.

Even though defaults totaled 2.46% on an issuer-weighted basis, this is largely due to two sectors, Energy and Metals & Mining. Excluding these two, defaults are just 0.83% for the year, according to J.P. Morgan. Actually, the default scenario is benign, with zero defaults recorded in the month of September alone.

### HIGH YIELD

Technical factors in the high yield market have been largely robust. Year-to-date through September 30, mutual fund inflows totaled \$9.6 billion, nearly reversing the \$9.9 billion outflow during the same period in 2015. Inflows remained positive in July and August, with July seeing inflows of more than \$5 billion. But demand turned slightly negative in September, and flows slipped to -\$105 million.

Totaling \$78 billion, supply for the quarter was up versus the same period in 2015, when issuance amounted to \$60 billion. Supply declined from second quarter's \$104 billion, however, and year-to-date, issuance totaled \$233 billion, off 7% from the same period last year, according to J.P. Morgan.

Fundamentals have deteriorated somewhat as overall leverage ticked up. However, improved commodity prices have provided some relief to Metals & Mining and Energy issuers which were among the quarter's stronger performers. More broadly, fundamentals have been helped by the market's low yields, which companies exploited to issue new low-cost debt. This has helped reduce interest costs and keep interest coverage ratios under control.



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Please contact 866.595.2470 or visit [www.ridgeworth.com](http://www.ridgeworth.com) for more information.

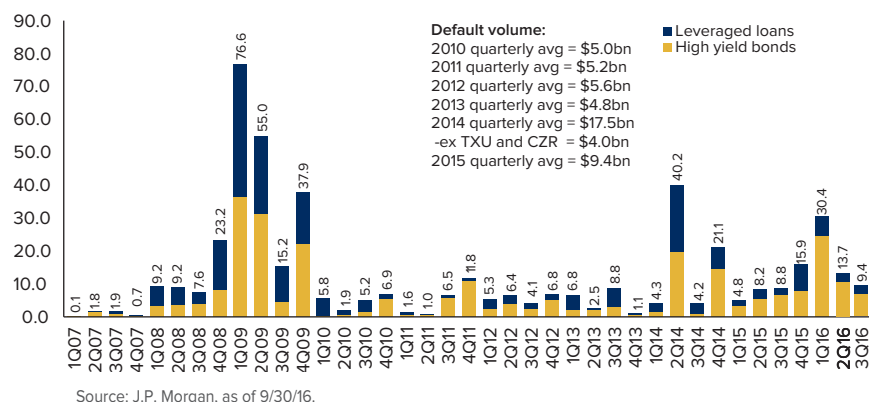
Defaults, confined largely to the Energy and Metals & Mining sectors, declined again during the quarter, falling to \$9.4 billion (including leveraged loans) from \$13.7 billion in the previous period. The issuer-weighted default rate slipped to 4.61%, and although this is up from a year ago, according to J.P. Morgan, it is off from 4.68% in August. Excluding Energy and Metals & Mining, the default rate was just 0.49%.

## OUTLOOK

With the robust year-to-date recoveries in both high yield and leveraged loans, spreads have dropped below historic averages for the first time since mid-2015. Although leverage is trending up interest coverage continues to be at a moderate level and, we believe, yields remain attractive given the alternatives in the global credit markets. The lingering effects of the sell-off in commodities

are projected to result in an increase in defaults from less than 2% in 2015 to 6% and 5% in bonds and 3% and 2.75% for loans in 2016 and 2017, respectively. Excluding Energy and Metals & Mining, however, defaults are forecast to remain a benign 2% for both asset classes. While high yield is no longer as undervalued as it was in the first quarter, we believe that the sector will continue to benefit from the global search for income and that portfolios will earn their yield through the end of the year.

Exhibit 2: Defaults Appear to Have Peaked



Bloomberg Barclays U.S. Aggregate Bond Index is an unmanaged index of U.S. bonds, which includes reinvestment of any earnings and is widely used to measure the overall performance of the U.S. bond market.

Bloomberg Barclays U.S. Corporate High Yield Bond Index is an unmanaged market value weighted index that covers the universe of fixed rate, non-investment grade debt.

Credit Suisse Leveraged Loan Index is a market-weighted index that tracks the performance of institutional leveraged loans.

Investors cannot invest directly in an index.

A Basis Point is equal to 0.01%.

Collateralized loan obligations are securities backed by a pool of debt, often low-rated corporate loans.

Credit Spreads are the difference between the yields of sector types and/or maturity ranges.

Credit Ratings noted herein are calculated based on S&P, Moody's and Fitch ratings. Generally, ratings range from AAA, the highest quality rating, to D, the lowest, with BBB and above being called investment grade securities. BB and below are considered below investment grade securities. If the ratings from all three agencies are available, securities will be assigned the median rating based on the numerical equivalents. If the ratings are available from only two of the agencies, the more conservative of the ratings will be assigned to the security. If the rating is available from only one agency, then that rating will be used. Ratings do not apply to a fund or to a fund's shares. Ratings are subject to change.

### Investment Risks:

Bonds offer a relatively stable level of income, although bond prices will fluctuate providing the potential for principal gain or loss. Intermediate-term, higher-quality bonds generally offer less risk than longer-term bonds and a lower rate of return. Generally, a fund's fixed income securities will decrease in value if interest rates rise and vice versa. Although a fund's yield may be higher than that of fixed

income funds that purchase higher-rated securities, the potentially higher yield is a function of the greater risk of that fund's underlying securities. Floating rate loans are typically senior and secured, in contrast to other below-investment grade securities. However, there is no guarantee that the value of the collateral will not decline, causing a loan to be substantially unsecured. Loans generally are subject to restrictions on resale. The value of the collateral securing a floating rate loan can decline, be insufficient to meet the obligations of the borrower, or be difficult to liquidate. Participation in certain types of loans may limit the ability of a fund to enforce its rights and may involve assuming additional credit risks.

The views expressed by the funds' managers are as of the quarter-end specified. This information is general in nature, provided as general guidance on the subject covered, and is not intended to be authoritative. It is subject to change without notice as market conditions change, and is not intended to predict the performance of any individual security, market sector, or RidgeWorth Fund. All information contained herein is believed to be correct, but accuracy cannot be guaranteed. Investors are advised to consult with their investment professional about their specific financial needs and goals before making any investment decision.

**Before investing, investors should carefully read the prospectus or summary prospectus and consider the fund's investment objectives, risks, charges and expenses. Please call 888.784.3863 or visit [ridgeworth.com](http://ridgeworth.com) to obtain a prospectus or summary prospectus, which contains this and other information about the funds.**

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RidgeWorth Investments—a global investment management firm headquartered in Atlanta, Georgia, with approximately \$40.1 billion in assets under management as of September 30, 2016—offers investors access to a select group of boutique investment managers and subadvisers. RidgeWorth wholly owns three boutiques: Ceredex Value Advisors LLC, Seix Investment Advisors LLC and Silvant Capital Management LLC, and holds a minority ownership in Zevenbergen Capital Investments LLC. WCM Investment Management and Capital Innovations, LLC serve as subadvisers to the RidgeWorth Funds. Through these six investment managers, RidgeWorth offers a wide variety of fixed income and equity disciplines, providing investment management services to a growing client base that includes institutional, individual and high net worth investors.

For more information about RidgeWorth, its boutiques and its subadvisers, visit [ridgeworth.com](http://ridgeworth.com).



## ABOUT SEIX INVESTMENT ADVISORS LLC

Seix Investment Advisors, one of RidgeWorth's investment management boutiques, has exclusively focused on managing fixed income assets since 1992. Seix seeks to generate competitive absolute and relative risk-adjusted returns over the full market cycle through a bottom-up focused, top-down aware process. Seix employs multi-dimensional approaches based on strict portfolio construction methodology, sell disciplines and trading strategies with prudent risk management as a cornerstone.

For more information about Seix, visit [seixadvisors.com](http://seixadvisors.com).